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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN
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BRENDA BURNS
SUSAN BITTER-SMITH
BOB BURNS

Arizona Corporation Commission

DOCKETED

OCT 10 2014

DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF DRAGOON WATER COMPANY, INC.
FOR AN INCREASE IN ITS RATES


DOCKET NO. W-01917A-14-0313

REPORT REGARDING WATER
LOSS

In Decision No. 65132, the Arizona Corporation Commission ordered Dragoon Water Company, Inc. ("Company") to file with its next rate case an explanation of why it is not cost effective to reduce water loss to ten percent or less if the water loss exceeded such amount. *See id.* at p. 23. The Company's water loss is above ten percent. Therefore, the Company hereby submits the water loss report set forth in Attachment 1, which explains why reducing non-account water to less than ten percent is not cost effective.

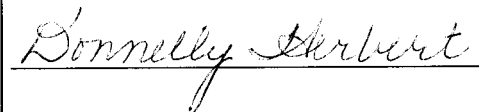
1 DATED this 10th day of October, 2014.

2 **MOYES SELLERS & HENDRICKS**

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5 Steve Wene

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9 Original and 13 copies of the foregoing
10 filed this 10th day of October, 2014, with:

11 Docket Control
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

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Attachment 1

WATER LOSS REDUCTION COST ANALYSIS

In Decision 65132, Dragoon Water Company was ordered to “reduce its non-account water to fifteen percent or less and, preferably to ten percent or less, by December 31, 2003, and in the event the Company is unable to reduce water losses to ten percent or less, shall file with its next rate case, an explanation of why such reduction is not cost effective.”¹

Dragoon’s non-account water is currently less than 15%. What follows is an explanation of why reducing non-account water to 10% is not cost effective. In the test year (2013), Dragoon pumped 10,508,000 gallons and purchased 29,000 gallons for a total water supply of 10,537,000 gallons. Dragoon sold 9,074,000 gallons. Therefore, the water loss is $10,537,000 - 9,074,000 = 1,463,000$. In terms of percentage, this equals 14% ($1,463,000/10,537,000$). In order to get the non-account water down to 10%, Dragoon would have to reduce the non-account water by 450,000.²

To determine whether it is cost effective to reduce the non-account water to 10% we first need to determine how much pumping the extra 450,000 gallons would cost Dragoon. Purchased Power and Chemicals are the expenses that vary with gallons pumped. The test year purchased power expense is \$11,538 or \$1.10 per 1,000 gallons pumped. Chemicals Expense is \$197 or \$0.02 per 1,000 gallons pumped. Reducing the gallons pumped by 450,000 gallons would save the Company \$494 in Purchased Power and less than a penny in Chemicals per year.

The cost to implement any program that would reduce water loss would cost far more than \$494. Water loss is usually addressed by meter replacement and leak detection. A single meter replacement can cost over \$200 per meter. Thus, replacing a substantial amount of meters would cost far more than \$494. A basic leak detection program will cost around \$10,000 and can go up from there if no leaks are found in the initial area selected for detection. When and if leaks are found, lines will then need to be excavated and repaired/replaced. This process can result in new leaks forming in other parts of the system so it may not actually result in a reduction in water loss. In any case the cost of leak detection combined with line excavation and repair/replacement is far more than \$450 per year.

¹ Decision 65132 at 23 line 23.

² $(1,463,000 - 450,000)/(10,508,000 - 450,000) = 10\%$

Given that any non-account water reduction program that has any chance of being effective would cost far more than the Company would save (\$494 annually) as a result of reducing non-account water to 10%, the Company concludes that it is not cost effective to reduce non-account water to 10%.